Nigerian Breweries Plc.

First Glance: Q3-17 PAT; Broad Underperformance

NB released Q3-17 result earlier today. **In our view, NB's performance during the three months period was broadly disappointing**. Although revenue grew 12.8% y/y, it was below our estimate by c.9%. PAT on the other hand, was down 75% y/y, and 97% below our estimate on (1) significantly weaker gross margin and (2) higher opex and net financing costs. **The PAT is NB's record low**. For 9M-17 however, the strong performance in H1 held net profit up 19% relative to 9M-16. The Board proposed an interim dividend of N1.00 per share.

Having shown consistent recovery from the trough of Q3-16, gross margin faltered in the Jul-Sep 2017 period to 34.4%, from the average of 44% achieved between Q4-16 and Q2-17, and below our 45% estimate. Compared to Q3-16 also, the recently reported margin is down 143 bps. Given largely stable prices during the period, we link the surprised margin contraction specifically to higher (1) amount (N4.1 billion; +44% q/q) recognized for NOTAP and (2) higher per hectolitre production cost, amidst pressure on key input prices (higher month-on-month Sorghum prices were recorded in key markets in July and August).

Operating expenses increased by 15.7% y/y and 1.4% q/q, and produced a margin of 30.7%, representing increases of 79 bps and 584 bps respectively. Compared to our estimate, opex margin was higher by 566 bps.

Net finance costs increased by 47% y/y, on 44% increase in finance cost and 49% decrease in finance income. We note the increase in gross debt to N28 billion as at September ending (vs. N35.5 billion in 9M-16), from N15.1 billion in H1 on the repayment of matured commercial papers. Finance income was in line while finance cost was ahead of our estimate by 8%.

Low base price continues to support y/y revenue growth while the q/q contraction signals lower sales volume. Compared to our estimate, the reported revenue was lower by 8.8%. NB's parent company stated in a trading update released yesterday that volume declined mid single-digit in Nigeria, amidst still difficult underlying trading conditions and consumers trading down.

The shares of NB have lost 2% month-to-date. We expect investors to further exit the stock in reaction to the recent earnings underperformance. Our estimates are under review.

Income Statement (N'bn)	9M-17	9M-16	Q3-17	*Q3 y/y*	Q3 Cordros
Turnover	**254.69**	222.72	**73.68**	12.76%	**80.75**
Cost of sales	**-148.00**	-125.31	**-48.32**	15.27%	**-44.41**
Gross Profit	**106.69**	97.40	**25.36**	8.27%	**36.34**
Gross OPEX	**-66.42**	-59.85	**-22.59**	15.72%	**-20.19**
Other income	**2.03**	0.40	**0.21**	79.51%	**0.20**
EBIT	**42.30**	37.96	**2.98**	-25.84%	**16.35**
Interest expenses	**-7.99**	-10.49	**-2.65**	43.57%	**-2.89**
Interest income	**0.12**	0.33	**0.04**	-48.73%	**0.04**
Profit before tax	**34.43**	27.80	**0.37**	-83.57%	**13.51**
Taxation	**-10.42**	-7.68	**-0.11**	-90.91%	**-4.05**
Profit after tax	**24.01**	20.11	**0.26**	-75.13%	**9.45**

SELL

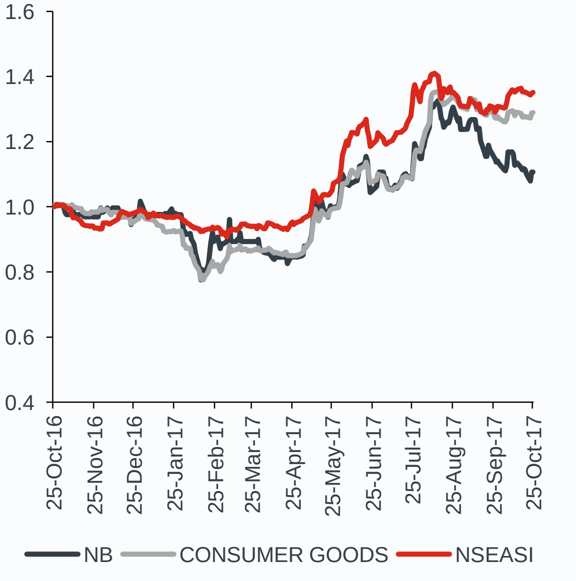
Target Price (N)	127.44
Current Price (N)	161.00
Implied Return (%)	-20.84

Company Data

NSE Code	NB
Bloomberg Code	NB:NL
Reuters Code	NB.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	1,287.50
Free Float (%)	47.32

Ratios	Q3-2017	Q3-2016	2016FY
Gross margin	34.41%	35.84%	43.20%
Opex margin	30.66%	29.87%	26.53%
EBITDA margin	14.80%	17.13%	26.34%
EBIT margin	4.04%	6.15%	16.86%
PAT margin	0.35%	1.60%	9.06%
EPS (N)	0.03	0.14	3.58

Price movement (NB vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Disclosures.

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